

**KELLAHIN AND KELLAHIN**

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4288  
TELEFAX (505) 982-2047

W. THOMAS KELLAHIN

NEW MEXICO BOARD OF LEGAL SPECIALIZATION  
RECOGNIZED SPECIALIST IN THE AREA OF  
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

August 27, 2002

Gary L. Horner, Esq.  
P. O. Box 2497  
Farmington, New Mexico 87499

Re: NMOCD Case 12910  
Application of Richardson Production Company  
For Compulsory Pooling E/2 of Section 14, T29N, R14W  
San Juan County, New Mexico

Dear Mr. Horner:

On August 22, 2002, by Mr. David Brooks, Esq., the hearing examiner for the New Mexico Oil Conservation Division ("Division"), decided that the parties should make another attempt to reach a voluntary agreement and to advise the Division at the hearing to be held on September 19, 2002 of the status of that effort.

It is our understanding at the hearing that Ms. Fischer will not lease her interest to Richardson but instead want to participate in the Navajo "14" Well No. 2 (Subject Well) which has been drilled in Unit L of Section 14 and will be downhole commingled for Fruitland coal gas production dedicated to a spacing unit consisting of the E/2 of Section 14 and for Pictured Cliff formation gas production dedicated to a spacing unit consisting of the NE/4 of Section 14.

In accordance with Examiner Brook's decision, I have been authorized by Mr. David Richardson of Richardson Production Company to communicate the following offer to you for Ms. Mary Fischer ("Fischer"):

(a) Fischer shall voluntarily commit her entire mineral interest in Lot 1 of Section 14 to the spacing unit. Fischer believes she owns 50% of 8/8 of 45 mineral acres (22.5 net acres). In accordance with the BLM calculations for the acreage in Lot 1, Richardson believes Fischer owns 50% of 8/8 of 35.51 mineral acres (17.755 net acres); (the disputed difference is 50% of 8/8 of 10 acres or 5 net acres).

(b) Fischer agrees to commit 8/8 of her entire interest such that she will be a working interest owner in the well in accordance with Richardson's Joint Operating Agreement, enclosed ("JOA");

(c) Fischer shall pay to Richardson her undisputed share of the costs of drilling and completing the Subject Well in accordance with the JOA which means that Fischer shall not be charged with any penalty for drilling and completing this well,

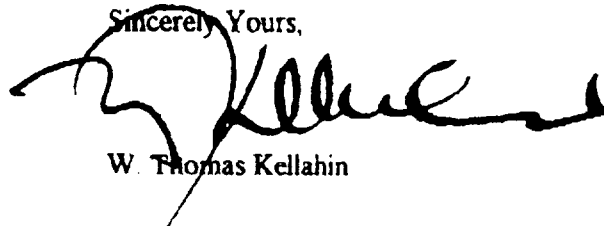
(d) Richardson shall disburse to Fischer her undisputed share of the production from the Subject Well in accordance with the JOA which means that Fischer shall not be charged with any penalty for drilling and completing this well;

(e) Fischer shall not receive any royalty or overriding royalty out of her 8/8 interest or out of any other interest.

(f) Richardson shall not be required to "carry" Fischer's interest or to recover Fischer's share of the costs of drilling and completing the well out of Fischer's share of production

(g) Richardson shall escrow Fischer's disputed percentage until Fischer provides to Richardson written confirmation that the Bureau of Land Management on behalf of the Navajo Tribe waives any claim to the disputed interest.

Sincerely Yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name.

W. Thomas Kellahin

CC. David Richardson

**RICHARDSON OPERATING COMPANY  
AUTHORITY FOR EXPEDITURES  
BASED ON BLM LEASEHOLD CALCULATIONS**

Well Name: Navajo 14 #2 well SECTION 14 PC NE4, FC E/2

Location: T29N R14W

Date: 8/27/2002

Proposed Depth: 850' Fruitland Coal  
1050' Pictured Cliffs

Objective Formation: Commingled Pictured Cliffs  
and Fruitland Coal

		Tangible	Intangible	Total	Fruitland Coal	Pictured Cliffs
<b>I. Drilling Costs (Included Run Casing)</b>						
Survey and Permits - - - - -			5,000		2,500	2,500
Title Opinion - - - - -			4,000		2,000	2,000
Damages- - - - -			6,000		3,000	3,000
* Drilling (incl. water and mud) 1050' @ 15.00/ft.- - -			15,750		6,375	9,375
BOP Rental- - - - -			750		375	375
Dirt Work- - - - -			3,000		1,500	1,500
Pit Lining- - - - -			2,000		1,000	1,000
Surface Casing 200' @ 7.65/ft.- - - - -	1,530				765	765
Casing Head- - - - -	1,000				500	500
Cement Surface- - - - -			1,500		750	750
Power Tongs- - - - -			1,000		500	500
Casing 1050' @ 5.00/ft.- - - - -	5,250				2,125	3,125
Trucking- - - - -			2,000		1,000	1,000
Logs- - - - -			5,000		2,500	2,500
Engineering- - - - -			5,000		2,500	2,500
Cement Longstring- - - - -			4,000		1,619	2,381
Total Cost to Run Casing- - - - -	7,780		55,000	62,780	29,009	33,771
6.0625% Farmington, NM Tax				3,806	1,759	2,047
10% Contingency- - - - -				6,278	2,901	3,377
Grand Total to Run Casing- - - - -				72,864	33,669	39,195
<b>II. Completion Costs</b>						
Rig Anchors- - - - -			750		375	375
Logs- - - - -			2,500		1,250	1,250
Perf- - - - -			3,000		1,500	1,500
Wellhead & Fittings- - - - -	3,000				1,500	1,500
Tubing 1050' @ 2.10/ft.- - - - -	2,205				893	1,313
Stimulation- - - - -			50,000		25,000	25,000
Tool Rental- - - - -			2,000		1,000	1,000
Trucking- - - - -			2,000		1,000	1,000
Battery Installation- - - - -			4,000		2,000	2,000
Restore Location- - - - -			2,000		1,000	1,000
Engineering- - - - -			5,000		2,500	2,500
Treater, Separator - - - - -	6,000				3,000	3,000
Flowline- - - - -	3,000				1,500	1,500
Tank & Fittings- - - - -	5,000				2,500	2,500
Gravel- - - - -	2,000				1,000	1,000
Workover Rig- - - - -			12,000		6,000	6,000
Completion Fluids- - - - -			2,000		1,000	1,000
Pipeline Hookup- - - - -			13,000		6,500	6,500
Division Order Opinion - - - - -			1,000		500	500
Frac Tank Rental- - - - -			2,000		1,000	1,000
Flowback - - - - -			2,000		1,000	1,000
Fence Location- - - - -	5,000				2,500	2,500
Total Completion Costs- - - - -	26,205		103,250	129,455	64,518	64,938
6.0625% Farmington, NM Tax				7,848	3,911	3,937
10% Contingency- - - - -				12,946	6,452	6,494
Drilling Costs- - - - -				72,864	33,669	39,195
<b>Grand Total Well Costs</b>				<b>223,113</b>	<b>108,549</b>	<b>114,564</b>

WI Share of Costs

<b>JITLAND COAL</b>				
.4385% Mary Fischer	DATE _____	APPROVED _____		\$5,903
.5615% RICHARDSON OPERATING COMPANY	DATE _____	APPROVED _____		\$102,646
			<b>TOTAL</b>	<b>\$108,549</b>
<b>PICTURED CLIFFS</b>				
.6656% Mary Fischer	DATE _____	APPROVED _____		\$12,219
.3344% RICHARDSON OPERATING COMPANY	DATE _____	APPROVED _____		\$102,345
			<b>TOTAL</b>	<b>\$114,564</b>
			Fischer	\$18,122
			Richardson	\$204,990